

Message Text

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TAGS: ENRG, JA

SUBJECT: JAPAN'S PETROLEUM POLICY

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CINCPAC FOR POLAD

SUMMARY: JAPANESE EXPECT HIGH PRICE OF CRUDE OIL
TO CONTINUE DUE TO PRODUCER PRICING POLICIES, PARTICIPA-
TION ARRANGEMENTS, AND WORLD INFLATION. AS RESULT, RATES
OF INCREASE IN JAPAN'S ENERGY CONSUMPTION AND ECONOMIC
GROWTH EXPECTED TO MODERATE. JAPANESE ALSO EXPECT MAJOR
OIL FIRMS WILL CONTINUE TO SUPPLY LARGEST PORTION OF CRUDE
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TO JAPAN, AND WILL THEREFORE WORK TO MAINTAIN GOOD RE-

LATIONS WITH MAJORS. AT SAME TIME JAPANESE WANT TO BUILD UP RESERVE STOCKS TO 90 DAYS, BE PREPARED TO TAKE ADVANTAGE OF GOVERNMENT TO GOVERNMENT OFFERS, AND IMPROVE THEIR INDEPENDENT CAPABILITY FOR DEVELOPING SOURCES OF SUPPLY. FOLLOWING SPECIFIC STEPS NOW UNDERWAY SHED LIGHT ON PRESENT STATE OF PLAY IN REFORMULATION OF JAPANESE PETROLEUM POLICY.

1. CONSUMPTION. AFTER DELAY OF SEVERAL MONTHS DUE TO UNCERTAINTY CREATED BY OIL CRISIS, MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) HAS COMPLETED ITS ANNUAL FIVE YEAR PETROLEUM SUPPLY PLAN AS REQUIRED UNDER PETROLEUM INDUSTRY LAW. MAIN PROVISIONS ARE: A) FOR FISCAL YEAR 1974 (APRIL 1974-MARCH 1975), CONSUMPTION PLANNED AT 283,904,000 KILOLITERS, OF WHICH 283,054,000 KILOLITERS WILL BE IMPORTED. TOTAL IS 6,454,000 KILOLITERS LESS THAN 289,508,000 KILOLITERS CONSUMED IN FY 1973. NEVERTHELESS, IMPROVED DEMAND/SUPPLY SITUATION HAS LED TO SOMEWHAT HIGHER FIGURE FOR FY 1974 THAN HAD BEEN PREDICTED EARLIER THIS YEAR. B) PLANNED CONSUMPTION WILL RISE

BETWEEN 4 AND 6 PERCENT PER YEAR TO REACH 328,468,000 KILOLITERS (NOT INCLUDING RELATIVELY SMALL AMOUNT OF CRUDE OIL USED FOR ELECTRIC POWER GENERATION).

PLAN ASSUMES 0.7 PERCENT REAL GROWTH RATE IN GNP FOR FY 1974, AND 7.2 PERCENT AVERAGE REAL GROWTH FOR FY 1975-1978 PERIOD. SINCE GOVERNMENT-WIDE AGREEMENT ON METHOD AND TIMING NOT YET COMPLETELY FIRMED UP, FIGURES DO NOT TAKE INTO ACCOUNT ANTICIPATED INCREASE IN RESERVE STOCK LEVEL FROM PRESENT 72 DAYS TO 90 DAYS BY END OF FY 1978. ON OTHER HAND, FIGURES FOR FY 1974-1978, WHICH ARE ABOUT 6 MILLION KILOLITERS BELOW THOSE FOR FY 1973-1977 PERIOD PROJECTION, DO REFLECT EFFECTS OF OIL CRISIS CUTBACK AND ANTICIPATED SLOWER RATE OF INCREASE IN CONSUMPTION AS RESULT OF CONTINUED HIGH CRUDE PRICES.

ON BASIS OF ABOVE PLAN, MITI HAS APPROVED APPLICATIONS, HELD UP BY OIL CRISIS, TO EXPAND REFINING CAPACITY BY 1,130,000 B/D; BUT HAS STIPULATED THAT COMPLETION OF NEW FACILITIES BE DELAYED FROM 6 MONTHS TO A YEAR.

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2. STOCKPILING. MITI IS PRESSING MINISTRY OF FINANCE FOR CONCURRENCE IN SUBMITTING DRAFT BILL TO NEXT DIET SESSION REQUIRING PRIVATE INDUSTRY TO MAINTAIN 60 DAYS OIL STOCKS EFFECTIVE IMMEDIATELY UPON ENACTMENT OF LAW (APRIL 1975 AT EARLIEST), AND 90 DAYS BY 1 APRIL 1978. MOF CONCURRENCE WILL NOT BE EASY TO OBTAIN, BUT MITI SEEMS CONFIDENT.

OF ADDITIONAL 30 DAYS, PRIVATE INDUSTRY WILL BE REQUIRED TO OBTAIN AND STORE 15 DAY OIL SUPPLY, BUT WILL RECEIVE FROM GOVERNMENT NON-INTEREST LOANS FOR 90 PERCENT OF STORAGE FACILITIES AND CRUDE OIL PURCHASES. FOR FINAL 15 DAYS SUPPLY, NEW PUBLIC PETROLEUM STOCKPILING CORPORATION WILL HAVE RESPONSIBILITY FOR PROVIDING LAND, FACILITIES AND CRUDE OIL IMPORT FINANCING TO PRIVATE FIRMS. AT APPROXIMATELY 9000,000 KILOLITER PER DAY CONSUMPTION RATE ANTICIPATED FOR 1978, MITI CALCULATES ADDITIONAL 33 OR 34 MILLION KILOLITERS OIL NECESSARY TO MEET 90 DAY TARGET.

3. GOVERNMENT TO GOVERNMENT DEALS. MITI AT MOMENT NOT CONSIDERING SETTING UP PUBLIC CORPORATION. IF PRICE NEGOTIATIONS SCHEDULED TO OPEN SHORTLY WITH IRAQ SUCCESSFUL, IRAQI OIL BOUGHT BY GOJ UNDER ITS FIRST GG CONTRACT WILL BE RESOLD TO SIX COMPANY-CONSORTIUM THROUGH ADMINISTRATIVE GUIDANCE PROCEDURE. JAPAN PETROLEUM DEVELOPMENT CORPORATION WILL PROVIDE FINANCING. POSSIBLE FUTURE DEALS WITH KUWAIT, SAUDI ARABIA, CHINA OR USSR WILL HANDLED ON CASE-BY-CASE BASIS.

4. PETROLEUM INDUSTRY REORGANIZATION. IN SPITE OF SOME INDUSTRY OPPOSITION, MITI HAS FIRMLY DECIDED THAT SOONER OR LATER THE JAPANESE CAPITAL-BASED SECTOR OF THE PETROLEUM INDUSTRY MUST BE STREAMLINED TO IMPROVE ITS EXPLORATION, PRODUCTION AND MARKETING CAPABILITIES. FACED WITH MULTITUDE OF PROPOSALS, NONE OF WHICH WOULD PROBABLY COMMAND WIDE SUPPORT IN DIET IF LEGISLATIVE ROUTE TAKEN, MITI HAS DECIDED TO SEEK TO "PERSUADE" 40 TO 50 INDEPENDENT JAPANESE REFINING AND EXPLORATION COMPANIES TO COOPERATE VOLUNTARILY. IN FACT FACT, 60 DAY STOCKPILE REQUIREMENTS IS POSSIBLE LEVER IN PERSUASION PROCESS. BEFORE RECEIVING MITI PERMISSION TO MARKET LIMITED OFFICIAL USE

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PRODUCTS, EACH COMPANY WILL BE OBLIGATED TO MAINTAIN STOCKPILE SHARE PROPORTIONATE TO ITS PRODUCTIVE CAPACITY. GIVEN THEIR WEAK MARKET AND FINANCIAL POSITION, MANY JAPANESE INDEPENDENTS MAY BE UNABLE TO MEET STOCKPILE TARGET AND THUS BE "PERSUADED" TO MERGE.

5. RELATIONS WITH MAJORS. MITI, JAPANESE PETROLEUM INDUSTRY AND MAJOR INTERNATIONAL OIL FIRMS ALL FULLY EXPECT TO CONTINUE MUTUALLY PROFITABLE RELATIONSHIP DURING FORESEEABLE FUTURE. THERE IS UNIVERSAL AGREEMENT THAT NEITHER PRODUCING NATIONS NOR INDIVIDUAL CONSUMING NATIONAL CAN REPLACE, IN NEAR TERM AT LEAST, EXPLORATION, DEVELOPMENT AND DISTRIBUTION CAPABILITIES OF INTERNATIONAL OIL FIRMS. SOME MAJORS, HOWEVER, WITH FEWER DOWNSTREAM ACTIVITIES IN JAPAN, MAY READJUST

THEIR SUPPLIER ROLE GRADUALLY IN FAVOR OF JOINT EXPLORATION AN ALTERNATIVE ENERGY DEVELOPMENT PROJECTS.

6. GOVERNMENT CONTROLS OVER INDUSTRY. MITI REPORTEDLY HAS PREPARED DRAFT BILL PROVIDING FOR GREATER CONTROL OF INDUSTRIAL ENERGY CONSUMPTION, BUT ENTHUSIASM WITHIN MITI FORMORE FORMAL CONTROLS SEEMS TO HAVE WANED FROM OIL CRISIS HIGHPOINT. CONSUMPTION AND PRICE CONTROLS INSTITUTED UNDER EMERGENCY OIL DEMAN-SUPPLY ADJUSTMENT LAW HAVE BEEN LIFTED (REFTEL C). INSTEAD, CABINET LEVEL "HEADQUARTERS FOR PROMOTION OF RESOURCES AND ENERGY SAVING" HAS BEEN SET UP TO MONITOR CONSUMPTION AND PRICE LEVELS (REFTEL B). LARGE CONSUMERS OFENERGY ARE REQUIRED TO SUBMIT SCHEDULED CONSUMPTION LEVELS TO THIS GROUP MONTHLY, AND IF LEVEL JUDGED EXCESSIVE, FIRMS WILL BE REQUESTED TO EXERCISE RESTRAINT.
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